

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-281-S**

IN RE:

Application of Palmetto Utilities, Inc. for
adjustment of rates and charges for, and
modification to certain terms and conditions)
related to, the provision of sewer service.)

PREFILED DIRECT TESTIMONY
OF
DONALD J. CLAYTON
ON BEHALF OF PALMETTO
UTILITIES, INC.

1 **Q. PLEASE LEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald J. Clayton. My business address is 201 King of Prussia Road,
3 Suite 650, Radnor, Pennsylvania, 19087.

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the Principal in charge of management consulting at Tangibl Group, Inc.

8 **Q. HOW LONG HAVE YOU BEEN EMPLOYED AT TANGIBL GROUP, INC?**

9 A. I have been employed at Tangibl Group, Inc. since September of 2016. I was with the
10 forerunner company, Tangibl, LLC, since March of 2007.

12 **Q. PLEASE DESCRIBE TANGIBL GROUP, INC.**

13 A. Tangibl Group, Inc. is a professional services firm serving water, wastewater, waste
14 services and energy utilities.

16 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

17 A. I have Bachelor of Science in Civil Engineering and Master of Business
18 Administration degrees from Rensselaer Polytechnic Institute.

19

1 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

2 A. Throughout my career I have served public utilities in consulting and executive
3 capacities. Recent assignments include preparation of rate cases, cost of service and
4 rate design studies for gas and water utilities, and depreciation studies for electric,
5 gas, water, wastewater, thermal and railroad companies. My work experience is
6 further detailed in my resume which is attached hereto as DJC Exhibit 1.

7
8 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?**

9 A. Yes. I am a Registered Professional Engineer in Pennsylvania. I am also a Chartered
10 Financial Analyst and a Certified Depreciation Professional.

11
12 **Q. HAVE YOU HAD FORMAL TRAINING RELATING TO UTILITY ACCOUNTING AND**
13 **RATEMAKING?**

14 A. Yes. I have completed utility accounting and ratemaking seminars offered by Price
15 Waterhouse and Salomon Brothers. I have also completed 5 one-week programs
16 offered by Depreciation Programs, Inc. in the areas of actuarial and simulated life
17 analysis, forecasting of life and net salvage, and preparing and managing depreciation
18 studies.

19
20 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY ON BEHALF OF PALMETTO**
21 **UTILITIES, INC. TO THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA.**

22 A. Yes. I submitted testimony on behalf of Palmetto Utilities, Inc. in Docket Numbers
23 2011-24-S, 2013-42-S AND 2017-228-S.

24
25 **Q. HAVE YOU PRESENTED EXPERT TESTIMONY IN RATE RELATED PROCEEDINGS**
26 **BEFORE OTHER REGULATORY AGENCIES?**

27 A. Yes. My recent testimonial history is attached hereto as DJC Exhibit 2.

28
29 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

30 A. The purpose of my testimony is to support the application for rate relief of Palmetto
31 Utilities, Inc. (PUI). My testimony also discusses the development of the original cost

1 of the facilities acquired from the City of Columbia by the former Palmetto of
2 Richland County, LLC (PRC) which was merged with PUI in July of 2017 as
3 approved by the Commission in Docket Number 2017-105-S. I am also sponsoring
4 Exhibit B to the application as filed with the Commission in this proceeding.
5

6 **Q. WHAT IS THE OVERALL RATE INCREASE THAT PUI IS SEEKING AT THIS TIME?**

7 A. PUI is seeking additional service revenue of \$5,933,328. To achieve this level of
8 additional revenue, PUI is requesting that the monthly charge for the flat rate
9 customers per single family equivalent be raised by \$14.52 from \$52.10 to \$66.62
10 over a three-year period, which is a 27.87% increase in the flat rate.
11

12 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY PUI?**

13 A. The last rate application for PUI was filed in 2017, which was based on a test year
14 ending March 31, 2017.
15

16 **Q. WHY IS PUI REQUESTING RATE RELIEF AT THIS TIME?**

17 A. Rate relief is needed at this time to enable PUI to recover increases in its costs of
18 operation and to earn a reasonable return on its investment which, since the last rate
19 proceedings, has increased by virtue of new plant additions and increases in operating
20 and maintenance expenses. PUI's current application includes its actual plant balance
21 as of August 31, 2019 of \$185.6 million and pro-forma net additions of \$3.4 million
22 which have been placed in service prior to the February 25, 2020 cut-off date
23 determined by the Office of Regulatory Staff (ORS) in this case. Further detail of
24 capital projects performed since the last rate case are described in Mr. Stone's
25 testimony. At current rates PUI is earning just 4% on its investment and an operating
26 margin of just 6.53%. Without rate relief, PUI will be unable to continue to meet its
27 financial obligations and to attract investment capital for continued plant expansions
28 and replacements. Such a scenario places in jeopardy PUI's ability to continue to
29 provide safe, reliable and efficient sewer utility services to its customers.
30

1 **Q. WHAT HAS BEEN PUI'S EXPERIENCE WITH THE COSTS OF OPERATION SINCE ITS**
2 **LAST RATE INCREASE?**

3 A. It has been just over two years since PUI's current rates were placed into effect, and
4 in that time PUI's operating expenses have increased. As noted in the testimony of
5 Mr. Daday, PUI has incurred increased operational expenses for things such as
6 purchased power, chemicals, sludge removal, etc. In addition, taxes and depreciation
7 expense have also increased. Also, as indicated previously PUI has made significant
8 capital expenditures at the treatment plant, the discharge facilities, and throughout the
9 collection and transportation systems since the last rate filing.

10
11 **Q. BASED ON THE TEST YEAR DATA AS ADJUSTED, WHAT RETURN ON RATE BASE**
12 **RESULTS AFTER THE REQUESTED RATE INCREASE IS CONSIDERED?**

13 A. Based on the adjusted test year data and the requested rate of \$66.62 per ERC, the
14 resulting return on rate base is 8.57%. The 8.57% return is based on PUI's actual
15 capital structure of 41.79 % debt and 58.21% equity and actual cost of debt of 5.89%
16 and a 10.5 % return on equity.

17
18 **Q. WHAT ORIGINAL COST FOR THE FACILITIES ACQUIRED BY PRC FROM THE CITY IS**
19 **INCLUDED IN THE RATE BASE IN THIS FILING?**

20 A. The total original cost related to these facilities that is included in the rate base is
21 \$29.9 million related to the original acquisition in 2013 from the City of Columbia as
22 shown in the February 28, 2013 study I prepared and which PUI provided to the
23 Commission in the September 2019 allowable ex parte briefing, a copy of which is
24 attached to my testimony as DJC Exhibit 3. When you subtract the accumulated
25 depreciation, you get \$18 million of starting net plant value.

26
27 **Q. HOW WAS THE ORIGINAL COST OF THE FACILITIES ACQUIRED FROM THE CITY OF**
28 **COLUMBIA DETERMINED?**

29 A. In 2012, PUI had a reproduction cost study completed by Joel Wood and Associates
30 (Wood report) which included an inventory of the acquired assets and estimates of the
31 ages of the assets; the report was refreshed to include property through the acquisition

1 date in 2013. The original cost of these facilities was determined by trending the
2 reproduction cost from the Wood report back to the calculated installation date based
3 on the assumed ages from the Wood report using the consumer price index for all
4 urban customers (CPI-U).

5
6 **Q. WHY DID YOU USE THE CPI-U TO TREND THE REPRODUCTION COST FROM THE**
7 **WOOD REPORT?**

8 A. I used the CPI-U index as it is readily available at no cost and is representative of
9 overall changes in price levels from year to year of goods and services in the United
10 States.

11
12 **Q. HAVE YOU COMPARED THE CPI-U WITH OTHER INDEXES?**

13 A. Yes. I have compared the Engineering News Record construction cost index (ENR)
14 and the Handy-Whitman index for water companies (HW) with the CPI-U. I had data
15 for the period 1980 to 2002 and found that the ENR index resulted in in a price level
16 change of 2.27 times when 2002 was compared with 1980. The HW index showed a
17 change of 1.87 for the same period and the CPI-U resulted in 2.17 times change. As
18 the CPI-U was in between the ENR and HW indexes it was determined that it would
19 be appropriate for using in establish the original cost for the PRC acquisition. Further,
20 neither the ENR nor HW indexes are specific to sewer company construction. Also,
21 the CPI-U is readily available and does not require an expensive subscription to
22 obtain the data.

23
24 **Q. WAS EXHIBIT B TO THE APPLICATION PREPARED BY YOU OR UNDER YOUR**
25 **SUPERVISION?**

26 A. Yes.

27
28 **Q. WOULD YOU PLEASE DESCRIBE WHAT EXHIBIT B TO THE APPLICATION SHOWS?**

29 A. Yes. Exhibit B consists of 6 schedules, A through F. Schedule A is PUI's balance
30 sheet as of August 31, 2019, set out by National Association of Regulatory Utility
31 Commissioners, or "NARUC", Uniform System of Accounts, or "USOA", for Class

A Wastewater Utilities accounts. Schedule B is PUI's combined income statement for the year ended August 31, 2019, including per books amounts, pro-forma adjustments, pro-forma amounts at present rates, proposed increase and pro-forma proposed amounts, again by USOA account. Schedule C shows PUI's billed revenue at present and proposed rates by customer classification for the test year ended August 31, 2019. Schedule D shows PUI's combined original cost, pro-forma additions and retirements, pro-forma original cost, service life, annual depreciation rate and pro-forma depreciation expense by USOA account for Plant in Service and Contributions in Aid of Construction, or "CIAC", as of August 31, 2019 and net pro-forma additions related to the plant and collection system expansions. Schedule E shows the actual number of customers and Equivalent Residential Customers, or "ERCs," for Commercial and Industrial and Multi-family Residential and Single Family Residential customer classes as of August 31, 2018, August 31, 2019 and projected as of August 31, 2020. Schedule F show the development of the Rate Base used in this proceeding. Schedule G shows the weighted cost of capital which results using the figures set out in Schedule B and associated return of rate base (RORB) and return on equity (ROE). Schedule H itemizes the projected rate case expense related to this proceeding and supports the pro-forma adjustment related to rate case expense.

Q. PLEASE EXPLAIN HOW TEST YEAR REVENUES AND EXPENSES WERE ADJUSTED.

A. Pro forma adjustments were made to test year revenues and expenses based on known and measurable changes.

Q. WHAT ADJUSTMENTS WERE MADE TO THE PER BOOKS INCOME STATEMENT ON SCHEDULE B?

A. The adjustments to the per books income statement on Schedule B include annualization of current equivalent residential customers (ERCs), removal of one time electric credits, current contractual service costs, reflection of bad debts at 2.5% of revenue, inclusion of corporate overhead related to PUI, annualization of depreciation and amortization expense, 3-yr amortization of rate case expense, reflection of income taxes at a 21% Federate tax rate and a 5% state rate, elimination

1 of non-recurring items, elimination AFUDC, to add property taxes related to pro-
2 forma plant additions, and to synchronize interest expense with the rate base.

3
4 **Q. HOW HAS PUI'S REVENUE REQUIREMENT INCREASED SINCE THE LAST RATE CASE?**

5 A. Based on the 12 month test year ended March 31, 2017 that was used in PUI's last
6 case, PUI had an approved revenue requirement of \$20.1 million. For the twelve
7 months ended August 31, 2019 (the current test year), PUI's total pro-forma revenue
8 requirement is \$27.2 million.

9
10 **Q. HAS PUI MAINTAINED CONTINUING PROPERTY RECORDS?**

11 A. Yes. PUI has maintained its continuing property records.

12
13 **Q. HOW DO THE PLANT IN SERVICE, CIAC AND RELATED DEPRECIATION AND**
14 **AMORTIZATION AMOUNTS AFFECT PUI'S REVENUE REQUIREMENT?**

15 A. If PUI's plant and CIAC balances change, depreciation expense will have to be
16 adjusted accordingly.

17
18 **Q. HOW WERE THE PLANT, CIAC, ACCUMULATED DEPRECIATION AND ACCUMULATED**
19 **AMORTIZATION BALANCES AS OF AUGUST 31, 2019 DETERMINED?**

20 A. The March 31, 2017 balances from the last case were brought forward based on the
21 additions and retirements from April 1, 2017, to August 31, 2019.

22
23 **Q. WERE THERE ANY PRO FORMA ADDITIONS ORE RETIREMENTS TO PLANT INCLUDED**
24 **IN THE RATE BASE?**

25 A. Yes, the estimated additions and retirements from September 1, 2019 to February 25,
26 2020, which were made outside of the test year, were reflected as pro-forma additions
27 and retirements and were included in the rate base in this case. The original cost and
28 depreciation schedule on per books and pro forma basis are shown in Schedule D of
29 Exhibit B.

1 **Q. WHAT IS THE PROPOSED RATE INCREASED DESIGNED TO ACCOMPLISH FOR PUI?**

2 A. An increase in PUI's current rates is designed to generate additional revenues that
3 will allow PUI to adequately fund its operations, attract capital, earn a reasonable
4 return on its investment, comply with regulatory requirements, and continue to
5 provide excellent sewer service to its existing and future customers.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes. It does.